MicroSave India Focus Note 76

Individual or Institutional BCs: The Client's Perspective

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Introduction

This IFN is the first of a two-part IFN series, which provides some perspective on how individual busbies correspondent (BCs) and institutional BCs are perceived by clients and banks. This IFN approaches the question from the client's perspective. In part as a function of history and the sequencing of Reserve Bank of India (RBI) circulars,[1] the appointment of business correspondent (BC) agents in India has followed one of two approaches.

The first approach is that banks appoint individuals directly from the community as BC agents. This was followed in several initial pilots when the RBI guidelines mandated the use of not-for-profit agents only. During this time, banks entrusted their branches to identify and appoint BC agents of good repute from the community. Appointing individuals as BC agents is less popular today, but many banks continue to follow this approach in certain districts. For instance, about 25% of the SBI BC agents in India are individual agents.[2] Some banks also directly appoint business facilitators (BFs), agents who help clients with the documents and the application process to open accounts or apply for loans.[3]

The second approach involves appointing firms or organisations to manage agents, called BCNMs (business correspondent network managers) in the rest of this Note. Under this aggregator approach, BC agents are employees or contractors of the BCNM. For instance, FINO Fintech Foundation (FINO) acts as BCNM for several banks. A FINO employee is then designated as the agent for a given area.

The relative merits of using an individual BC agent (direct individual) versus a BCNM (aggregator) from the client's perspective are analysed based on the following parameters:[4]

1) Trust and customer relationship
2) Quality of service delivery
3) Consumer protection
4) Cash availability

1) Trust and Customer Relationship

Under the individual agent model, the BC is directly tied to the bank. In the BCNM approach, since clients do not know the BCNM as a provider of banking services, the level of trust may be lower. For example, Eko's agents have often mentioned during *MicroSave* research that the BCNM needs to advertise a much stronger link with their partner bank, State Bank of India.

Client's Perception of BC: Individuals and BCNM

Parameters	BCNM	Individual BC
Trust and Customer Relationship	😐	☺
Quality of Service Delivery	☺	☹
Consumer Protection	☺	😐
Cash Availability	☺	☹

☺ 😐 ☹: Satisfied, Indifferent, Dissatisfied Client

A rural m-banking user's view:[(a)]
"Bank par bahut vishwas hota hain par aadmi ka koi vishwas nahin".
(I have a lot of faith in banks but not on individuals.)
(a) *MicroSave* research 'Optimising Agent Networks — Gujarat'

Furthermore, at the start of BC operations, clients wish to verify BC's relationship with the bank. In the case of the individual BC agent, the information can be easily confirmed at the bank branch, since the agent falls under the direct purview of the bank. However, if the BC agent belongs to a BCNM, the bank's branch staff may not be familiar with the agent. Indeed, in at least one case, a branch manager of a public sector bank even mistook a BCNM-appointed agent of his own bank for an imposter! In addition, bank staff may not have the time, desire, or ability, to respond to each individual enquiry about BC agents (particularly when they are managed by a different organisation), and this has the potential to create debilitating doubt in the market place.

Largely, clients recognise and trust banks much more than they do BCNMs. However, if other well-known organisations become BCNMs for banks that are not as well known in rural areas, the reputation of the BCNM could help customers decide whether or not to use BC services. For example, clients may welcome a well-known MFI becoming a BCNM for a private bank with

[1] See RBI Circulars RBI Circular RBI/2005-06/288, RBI/2007-2008/295, RBI/2008-2009 /141, RBI/2009-10/238, and RBI/2010-11/217 to understand the changes in policy governing entities who can act as BCs. While the BC model was initially envisioned as a service provided by NGOs and select individuals, it may now be taken up by all companies, except for NBFCs.

[2] List of villages having population above 2000 covered under financial inclusion plan up to 30th June 2011, SBI Website

[3] See RBI Circular RBI/2005-06/288 on RBI's website for more information on the difference between BCs and BFs.

[4] The choice of these four parameters is based on the results of *MicroSave* research on Agent Networks in Gujarat and Uttar Pradesh, the risk concerns described in Thorat, Srinivasan et al (2010) "Agency Network Management – Feasibility of Engaging Corporate Retail Networks As Business Correspondents of Banks – A Study," and *MicroSave* India Focus Note 66: What Do Clients Want in E/M-Banking Agents.

a small rural presence, even if the bank is not well-known to them.

2) Quality of Service Delivery

Potential clients state that 'education', which they perceive to mean the ability to handle banking transactions, is an important attribute for a good BC agent.[5] Knowledge of banking services is also important to become an effective BC agent. The quality of agent training will play a vital role in the ability and the speed with which the agent can handle transactions and queries. BCNMs could be better able to aggregate and train agents more effectively than banks using the direct hire model. BCNMs usually have qualified staff, formal programmes, and regular field follow-up. Managing training for a large cadre of BC agents is a task which a BCNM is usually better prepared to do than a bank.

Unless the bank takes specific measures to monitor the service that individual BC agents provide, clients can have complaints of service delays, lack of reliable timings, convenient location to transact etc. Furthermore, banks may not be able to devote the time, energy and resources required to monitor BC agents closely, especially as the BC network grows. On the other hand, a BCNM is specifically dedicated to providing this service and should be able to provide better customer service.

3) **Consumer Protection**

Consumer protection encompasses safety of the client's money, acknowledgement of transactions and the grievance redressal process.

The risk of fraud is likely to be greater with individual agents since there is little accountability and supervision, given that the bank is not situated in the community. When the bank is handling many individual BC agents across villages in a radius of up to 30 kilometres, the staff's ability to monitor all these agents is further compromised. Thus, clients' money is likely to be less safe. Individual agents may not have appropriate cash handing and storage mechanisms, which could also compromise the safety of the clients' cash.

With BCNMs, there is more than one layer of monitoring the work of the BC, which should reduce incidences of fraud. Additionally, the BCNM network may facilitate safer cash handling and storage methods since there is a tiered system of agents and super-agents.

Individual agents fare better than BCNMs when it comes to grievance redressal. Since there are fewer layers between the bank and the client, it may be easier for the client to approach the local bank branch to provide feedback. With BCNMs, there are many layers between the client and the bank. This means that complaints will take longer to reach the bank, and thus longer to be resolved. In fact, the BCNM may choose to ignore the complaint altogether.

BCNMs and banks (where they are using individual agents) need to be vigilant to tell clients to protect their PIN numbers and to ensure they are given appropriate receipts. Clients are much more likely to trust a channel which provides a receipt.[6]

4) Cash Availability

There are two ways to ensure that there is neither too much nor too little cash at the agent's location. First, the bank or BCNM can leave the agent on his own to interact directly with the bank (and the closest branch) to buy and sell e-balance (this is more typical in the direct-to-bank model). This may pose problems in remote locations where poor roads mean travelling even a few kilometres can take the entire day and pose a risk of theft. Thus, clients may often be unable to transact because the agent does not have enough cash/e-balance.

The second option, the one adopted by most major BCNMs in India, is to use a federated structure of agents and super-agents, where the latter mediate the relationship between the BCNM and the BC agent. BCNMs encourage agents and super-agents to develop relationships so that liquidity can be managed locally and internally within the agent network. In some cases, super-agents have one dedicated staff person ferrying cash between agents. Thus, managing liquidity via super-agents appears to be a smoother and more efficient way to manage liquidity risk. Managing liquidity via super agents also increases security of the cash. If the super agent is closer to the bank, the super agent can intermediate the agents' e-money top ups. Thus, cash risk to agents is lowered.

Conclusion

BCNMs in India have the advantage of delivering better on most of the parameters above, primarily because the BCNMs are dedicated to, and focused on, the success of the overall system. In the case of individual BCs, clients may find that the local bank branch does not have the motivation or the resources to provide dedicated teams to provide superior service. This is especially true in India where the banks prefer to outsource their priority sector/financial inclusion activities (for both credit and savings).

Both individual and institutional agents have their own relative advantages. However, these advantages are not absolute. Execution is the key, and either model can suffer if implementation on the ground is not effective.

[5] *MicroSave* India Focus Note 66: What Do Clients Want in E/M-Banking Clients, by Denny George and N.A. Venkata
[6] *MicroSave* Briefing Note 74: Managing Agent Networks to Optimise E- and M-Banking Systems, by Graham Wright and Veena Yamini